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MARCH 20, 1989

A Cahners publication serving the total foodservice industry

RESTAURANTS & INSTITUTIONS

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THE IRREPRESSIBLE VERY EDIBLE DAGWOOD SANDWICH

MARCH 20, 1989

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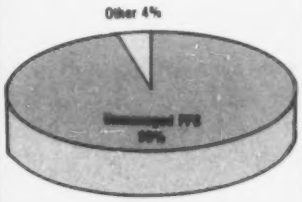


1984

HEALTH-CARE PLANS

Seventy percent of insured employees are now enrolled in managed-care health plans, the remainder in traditional programs.

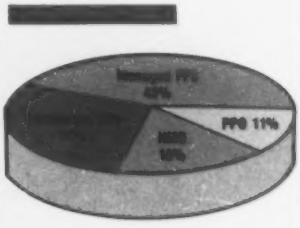
Unmanaged Fee for Service: Old-fashioned coverage that allows workers to choose their own doctors and get reimbursed for all or part of the fees charged by physicians and hospitals.

Managed Fee for Service: Like the old plans, but keeps tabs on utilization by, for example, requiring prior approval for some hospital admissions.

Health Maintenance Organization (HMO): Companies hired for a fixed overall fee to provide medical care for employees. Workers are covered only for treatment approved by the HMO.

Preferred Provider Organization (PPO): A group of medical personnel who contract to furnish services at discounted prices in return for prompt payment and a certain number of patients. Employees must choose doctors from the list.

Source: Health Insurance Association of American and Newsweek



1988

■ MONEY MANAGEMENT

Soaring Health-Care Rates Force Change

Companies modify medical coverage and hike employees' contributions.

The numbers are staggering: In the past 20 years, the cost of health care has risen from $50 billion per year to more than $500 billion.

As could well be expected, health-care premiums have risen dramatically as well. Since 1980, the cost of insuring a family of four has jumped 400%, according to Ellen Kaplan, an insurance consultant in Framingham, Mass. Soaring health-insurance rates were ranked the No. 1 problem by small businesses surveyed a year ago by the National Federation of Independent Businesses. A Dun and Bradstreet survey found that 39% of small businesses surveyed had premium increases of 20% or more last year, and 9% were faced with increases of 50% or more. A spokesperson for a 70-employee firm in Baltimore says he expects the company's health-insurance premiums will soon exceed payroll if both continue at present rates.

This expense has wrought havoc with businesses, both large and small. And food-service operations have not been exempt.

To cope with the financial strains these costs have put on bottom lines, most companies are changing their health-care coverage. For example, many companies are changing the type of coverage that is offered.

Companies also are hiking the contributions that employees must make to the cost of their premiums, particularly if the employee has opted to remain with traditional coverage. Types of coverage that will be reimbursed are being limited and companies are hiring health-care consultants to evaluate doctors' recommended courses of treatment.

Far more employees are facing pre-employment screening as well, to minimize the amount of risk companies will knowingly encounter. In a recent study, 55% of the companies with 500 or fewer employees required presceening.

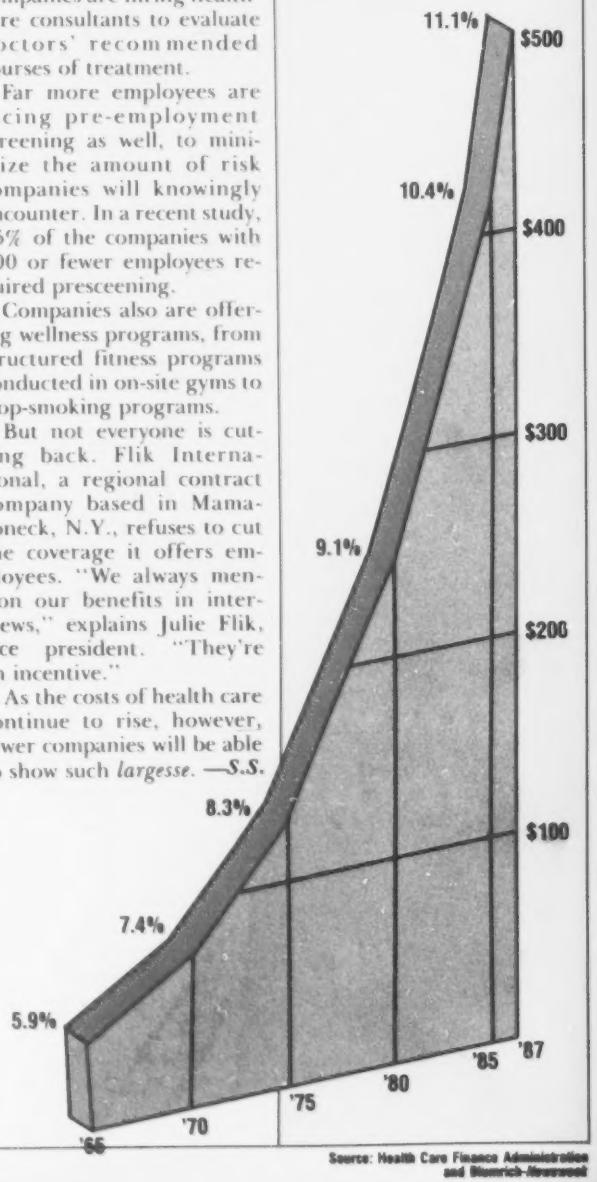
Companies also are offering wellness programs, from structured fitness programs conducted in on-site gyms to stop-smoking programs.

But not everyone is cutting back. Flik International, a regional contract company based in Mamaroneck, N.Y., refuses to cut the coverage it offers employees. "We always mention our benefits in interviews," explains Julie Flik, vice president. "They're an incentive."

As the costs of health care continue to rise, however, fewer companies will be able to show such *largesse*. —*S.S.*

CAN YOU AFFORD SICK EMPLOYEES?

The costs of providing health care have risen dramatically in the past 20 years. Why? Americans live longer and consume more medical services; state-of-the-art equipment is expensive but demanded; rising malpractice premiums mean higher doctors' fees and paying for the uninsured (now numbering 37 million) means hiking prices for the insured.



Source: Health Care Finance Administration and Blumrich-Newsweek

Oil companies are pressuring c-stores' market share by testing fast-food items with low labor costs and high margins.

■ **EXPANSION STRATEGIES**

C-Stores Rethink Fast-Food Niche

Convenience chains find that in foodservice, the "c" stands for costs, control and commitment.

Three years ago, c-stores seemed destined to carve out a sizable slice of the fast-food market, much as their speed and on-every-corner locations had enabled them to skim off a hefty portion of the retail grocery business.

Indeed, the portion of revenues represented by in-store food items had risen dramatically, from 4.4% of total c-store sales in 1977 to 14.4% of sales in 1986, according to figures supplied by Alex. Brown & Sons.

C-stores, it was said, enjoyed major advantages over the local burger, chicken or pizza vendor. Most stores owned locations as good as those of the big fast-food chains, but they had longer hours, shorter transaction times, and a product diversity that made for better traffic. The profit margins c-store operators could earn on foods prepared on-site were far higher than those for retail foods: gross margins of 39% on fresh sandwiches, 47% on deli services and on foods cooked on-site, and 52% on all fast foods.

Some of the shine has rubbed off this bright future, however. The big convenience players have scrapped much-trumpeted tests such as 7-Eleven's plans to share stores with Hardee's. Church's Chicken and pizza maker Rocky Rococo, replacing them with simpler display cases of doughnuts. And the smaller chains, which had hoped to use fast food to protect their market niche from the encroachment of the oil company mini-marts, have been forced to realize that foodservice involves more than putting a soup kettle next to the coffee urn.

"Clearly, foodservice in c-stores involves a very different rationale," says Chris Vroom, specialty retail analyst for Alex. Brown & Sons. "You have to set yourself up with a fast-food philosophy. You can't just expect to add this or that product and watch the gross margin dollars fall to the bottom line."

In particular, according to Vroom, c-store operators exploring the potential of fast food often ignore the additional labor costs incurred. In-store fast-food programs usually require at least one worker per shift who does nothing but handle food. The most ambitious programs—those with sit-down dining areas—pay the average food preparer $4.35 an hour, compared to $4.25 for employees who do not handle food. Most important is the cost of the additional training c-store food handlers must receive—a cost

that, in an industry known for high turnover and heavy dependence on part-time staff, may never be recovered fully.

Another foodservice lesson many c-stores had to learn the hard way is the importance of controlling the product. Before Effingham, Ill.-based Super K Stores revamped its foodservice approach in 1988, the menu was "typical of a program out of control," says Marketing Vice President Bob Lambert. Super K's 40 units included 13 sandwich delis, 11 hot soup counters, nine fry stations, nine pizza programs, three bakery units for doughnuts and bread, and one full grill. "The menu was running off in a million directions at once, and nobody knew if they were making any money or not."

Lambert's department streamlined the sandwich menu from 20 items using a variety of cheeses and meats to the six most popular standards. Menu control is particularly tough at c-stores, he says, where the operator is frequently a service-station owner who got into c-stores as a sideline. Those people tend to analyze foodservice profitability in total rather than item by item, which leads them to give up space to low-profit items. "Nachos have been out of style almost everywhere for 18 months," Lambert says. "But if you go into almost any convenience store today, you'll see nachos. The store is throwing away profit with that specific item, even though its total fast-food earnings may look the way they should."

Waste has been a frequent complaint of c-store operators who get into fast food, but Lambert says Super K's biggest problem was a *lack* of waste. "Workers were told not to throw away product, and our quality was suffering. The programs were really killing themselves."

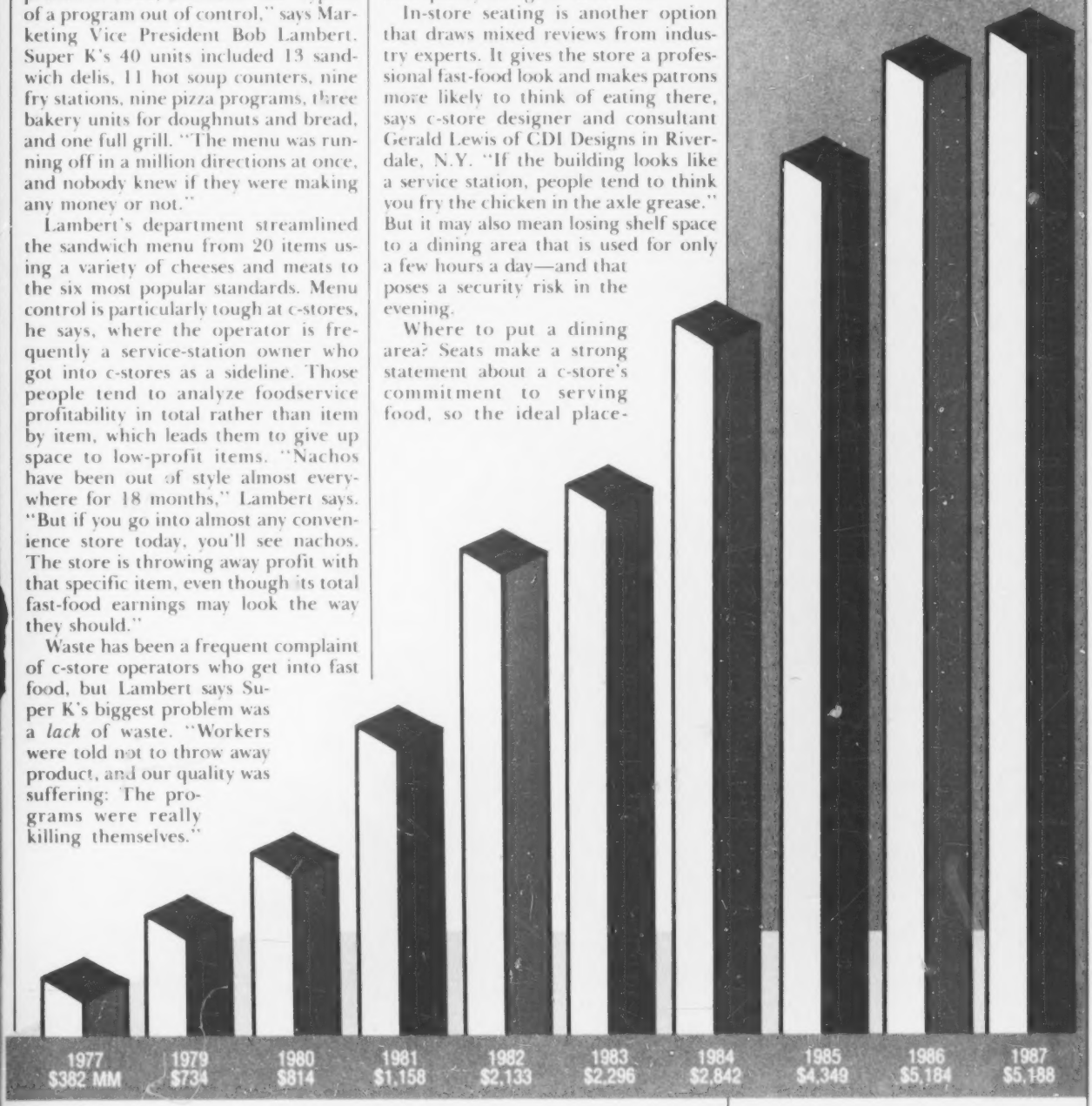
Eventually the company had to accept that in fast food, consistency takes priority over cost-cutting. "The Hardee's folks throw away more food in a day than a convenience store sells," Lambert says. "The c-store industry can still goof itself up [with poor fast-food programs], because many people still think of c-stores as gas stations. Consistent quality brings in customers."

In-store seating is another option that draws mixed reviews from industry experts. It gives the store a professional fast-food look and makes patrons more likely to think of eating there, says c-store designer and consultant Gerald Lewis of CDI Designs in Riverdale, N.Y. "If the building looks like a service station, people tend to think you fry the chicken in the axle grease." But it may also mean losing shelf space to a dining area that is used for only a few hours a day—and that poses a security risk in the evening.

Where to put a dining area? Seats make a strong statement about a c-store's commitment to serving food, so the ideal place-

C-STORE FAST-FOOD SALES PLATEAU IN 1987

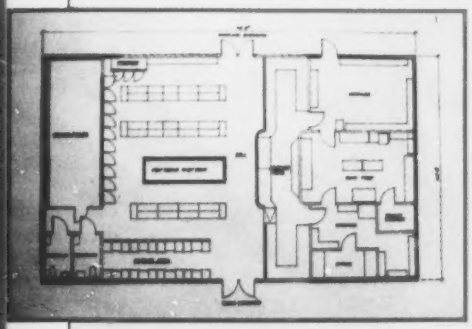
Soaring fast-food sales at convenience stores hit an air pocket last year; now operators are rethinking menus and methods, looking for what customers are really buying.



Source: Alex. Brown & Sons

CHAIN DIGEST

In-store seating lends a "serious foodservice look" but may cost shelf space, traffic and security.



FINE-TUNING FAST FOOD

Industry experts agree on one truth about a c-store fast-food program: it must be tailored to the needs of the immediate market by an operator who asks what will work in that particular store. A given unit may want to split its space almost evenly between fast food and groceries, as in many Marathon Oil Speedy Stores (above). "C-store space allocation is often out of kilter," says Gerald Lewis, president of CDI Designs. "Grocery shelving can take up 50% of space, but makes up only 10% of sales." Seating is another variable owners need to examine carefully. It may pay off, or it may create more problems than profits, says Alex. Brown analyst Chris Vroom. "It gives people you really don't want in your store a chance to sit, have coffee and hang around."

ment is the most obvious: right up front, preferably by a bank of windows. And of course a dining area should be separated from the ordering space, to make sure customers pay for their food before eating it. But it can't be too separate. Without a clear view of the seats, employees will have trouble controlling the space; without easy access to the dining area, they will not bus and wipe down the tables as often as necessary.

Super K's Lambert is unconvinced of the benefits of in-store seating, though his company has made an atrium with seats part of its latest prototype. "It's definitely worthwhile in the blue-collar neighborhoods," he says, but not as much along interstate highways, where customers are largely in-and-out shoppers. "And it's a security risk because it's out of the general traffic flow. After midnight, we usually turn out the lights to show that we don't allow anyone to sit in there and use the space for something else."

One top chain that seems to have solved many c-store foodservice problems is Des Moines, Iowa-based Casey's General Stores. Casey's has pursued on-premise food preparation more aggressively than the other six public c-store companies. Currently, 95% of the 653 Casey's stores sell doughnuts and pizza baked on the premises, and 28% offer a new fried chicken product. Casey's expects to put the chicken program into more than 500 stores at the rate of 15 a month. Fast food accounted for 22% of Casey's $139.4 million in non-gasoline retail sales in fiscal 1988, and President Donald Lamberti plans to make that proportion 30% within five years.

Part of that success comes from niche marketing—Casey's goes into rural towns where it may be the only fast-food outlet—but Lamberti attributes much of it to a determined program of employee training. Casey's keeps a team of 12 instructors, imports trainees to work in a model store at headquarters, and runs a test kitchen for trying recipes and filming instruction videos on everything from preparation to sanitation. These are shipped out to the stores with play-only VCRs.

"It's all part of taking foodservice very seriously," Lamberti says. "We expect to sell $25 million in pizza this fiscal year, and that's only half of our total foodservice sales. Obviously fast food is an important part of our business."

—Brian Quinton

C-stores designed to look like professional fast-food operations—such as this Royal Farms outlet owned by Baltimore-based Cloverland Farms Dairy—can help overcome customer resistance to c-store dining by clearly separating the foodservice areas from the retail grocery and point-of-sale locations.

ACTION EXPRESS

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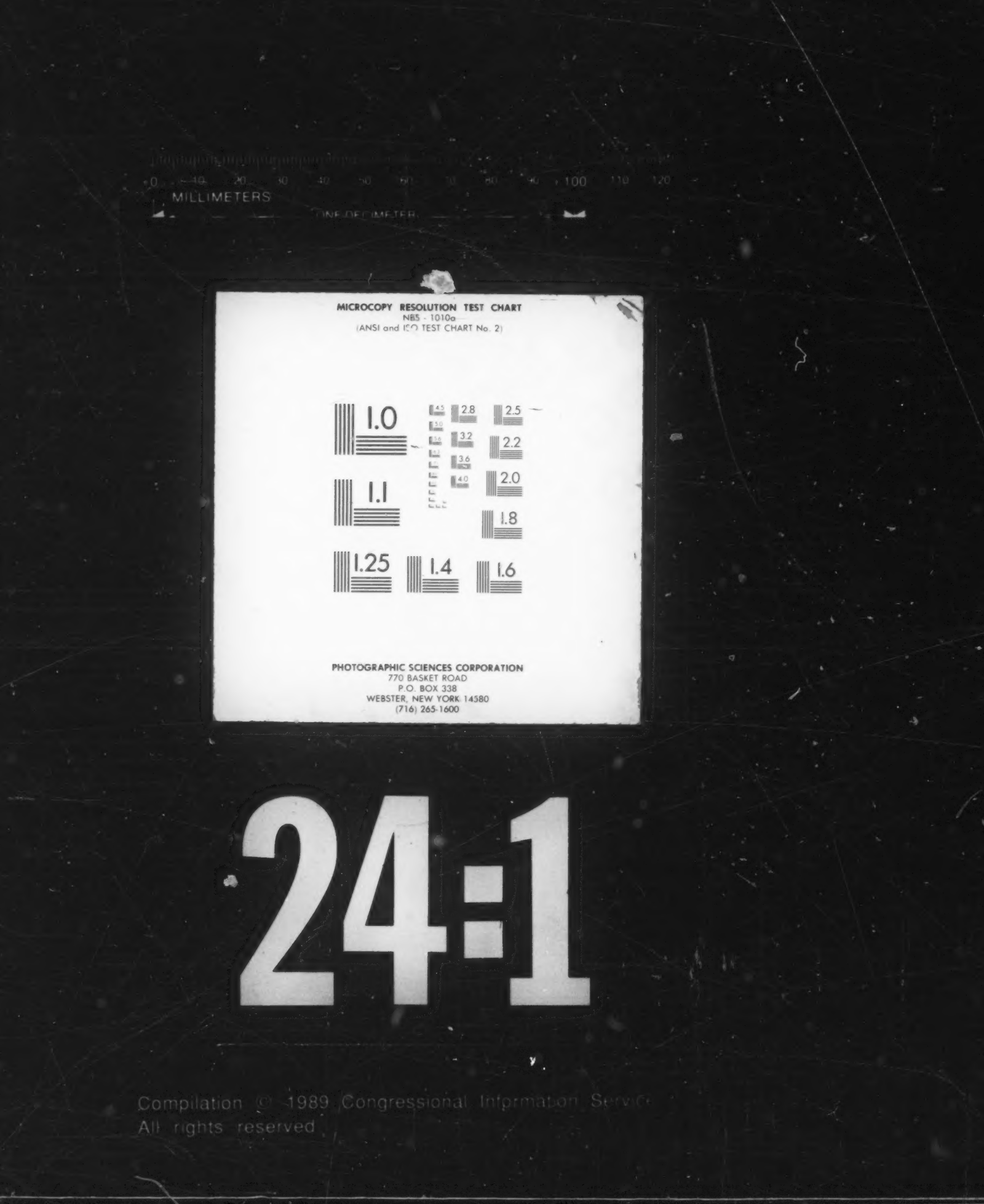

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